

FINANCING THE COSTS OF COLLEGE

It has been said that there are only two kinds of parents who want their youngsters to go to college -- those who never had the opportunity themselves and those who are college graduates and want their children to follow in their footsteps, preferably back to Dad's Alma Mater. So if you are a parent in one of these two categories the changes are that you should be planning on how you are going to pay the costs. Of course your youngster may be one of those lucky ones who is an all-state quarterback or for whom Grandpa twenty years ago set up a trust fund of General Motors stock, in which case you've got nothing to worry about. But for the rest of you parents a little planning now will mean a lot less worrying later when you start adding up the costs for even a two-year Junior College.

What Is It Going To Cost?

Estimates vary, but they all agree on one thing -- the cost of college is rising steadily and will continue to do so. In the past fifteen years the average price of food, clothing, shelter, and a new car has gone up about 22 percent, while the average cost of attending college has risen by nearly 60 percent. And the worst is yet to come! Most authorities recommend adding 5 percent a year up to the time your youngster may be expected to enter. The average cost is about \$2,000 now as against \$1,275 in 1950. Of course

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"average" is a deceptive word and costs vary considerably between public and private colleges. Below are a few samples of annual costs for the year 1964-65. (Figures are for room, board, tuition, and fees. They do not include expenditures for travel, books, clothing, recreation, dues, and personal expenses.)

| | |
|-------------------------------|---------|
| Mills College (women) | \$2,550 |
| University of Denver | 2,010 |
| University of Illinois | 1,456 |
| Princeton University | 2,820 |
| Union College | 2,576 |
| Duke University | 1,987 |
| University of Maryland | 1,496 |
| Pennsylvania State University | 1,845 |

As an example of the rise in costs, Princeton University costs for this past year were \$3,020.

Planning Ahead

The best way to be sure you can pay for your child's college education is to set up a regular program of savings and the earlier, the better. There are many different programs: government bonds, endowment insurance, savings accounts, and stock purchases. Choose one that fits your budget; but, most importantly, one you can stick to. United States E Bonds under the payroll savings plan are a comparatively painless way to build a fund. By buying one bond a month, this is the way your fund would grow under the new 4.15 percent interest rate, compounded semiannually:

| <u>At the End of:</u> | <u>\$18.75</u> | <u>\$37.50</u> | <u>\$75.00</u> |
|-----------------------|----------------|----------------|----------------|
| 7 years | 1,797 | 3,595 | 7,189 |
| 10 years | 2,749 | 5,497 | 10,994 |
| 15 years | 4,619 | 9,239 | 18,477 |

By buying bonds in your child's name as owner, either alone or with a parent as beneficiary, you can avail yourself of a special tax advantage. (A co-owner cannot be used under this tax feature.) These bonds become an outright gift from parent to child. Assuming that the child never exceeds \$900 income in any year, the total interest accruals on his bonds will be taxfree when he cashes them for his education.

The traditional way of placing funds in a bank, credit union, or savings and loan association is still a good one, but be sure the account is properly insured. The disadvantage of this method, of course, is its lack of compulsion. You must rely on your will power to make you deposit the money each month and to keep you from withdrawing it when vacation time comes around or extra expenses pop up unexpectedly. Most savings accounts pay at least 4 percent (many, more than that) but even at that rate if your child is three years old, you can have \$5000 by the time he's eighteen by saving \$20.30 a month. But if you wait until he's thirteen, the monthly amount will have to be more than three times as much to reach the same goal. The Credit Union now pays a 4.8 percent dividend, compounded annually. If this rate continues in the future, a monthly deposit of \$37.50 (the cost of a \$50 bond), with no withdrawals, will build your child a fund of \$3735.50 in seven years. (There is a possibility that the Credit Union will begin compounding interest semiannually when more sophisticated machinery is available.)

Life Insurance

There are many choices of endowment life insurance policies on either yourself or your child. They are in effect a "semi-compulsory" saving program. Although the earlier dollars you put in, like those in any savings program, will probably be worth less when you collect them, the dividends will tend to offset somewhat the inflationary trend. Regardless of the savings plan you choose to build a college fund, you should assure its completion with adequate life insurance in the event of your premature death.

Purchasing Stocks

If you are fortunate enough to have an adequate life insurance program backed with some savings, you might consider investing in carefully selected stocks as a hedge against inflation. When using stock purchases as part of your college savings plan, it is well to remember that there is a risk in such an investment. Prices may be down just when Johnny is ready to start college. That's why it is advisable to purchase stocks only as a supplementary measure and only if your total financial condition is strong.

Scholarships

If your savings aren't quite enough to put your youngster through, don't neglect the possibility of his obtaining a scholarship. More scholarships are available than ever before but they are primarily based on need. (About a fourth of all National Merit Scholarship

winners receive only token awards because they can't show need.)

Need is defined as the difference between what college will cost and what the student and his family can pay. The table below is typical of the kind used widely by colleges in determining roughly the amount of annual support that would be expected from you.

| Income | Number of Dependent Children | | |
|----------|------------------------------|--------|--------|
| | 1 | 2 | 3 |
| \$ 6,000 | \$ 900 | \$ 700 | \$ 630 |
| 8,000 | 1,270 | 990 | 850 |
| 10,000 | 1,760 | 1,360 | 1,170 |
| 12,000 | 2,300 | 1,810 | 1,530 |
| 14,000 | 2,900 | 2,260 | 1,920 |

Besides income, your assets such as equity in a house would also be taken into account by the college in determining the student's financial need.

In addition to help from colleges, many organizations such as ethnic and religious groups, trade and professional associations, and veterans organizations give scholarships. And of course our own Educational Aid Fund (EAF) has already provided 25 grants based on scholastic record, motivation, and financial need. The Executive Committee of the EAF is exploring means to increase the fund to provide more grants in the future.

Loans

If you're making under \$15,000 a year, after taxes, you might consider one of the loans available under the National Education Act

of 1965 which grants 10-year loans at 3 percent. Preference goes to able students in science, mathematics, teaching, engineering, and foreign languages, and financial need must be shown.

Some local banks grant educational loans at a discounted rate of $3\frac{1}{2}$ percent per annum which amounts to over 6 percent per annum when computed on the actual amount of money provided and the time it is used. Most of these loans are protected by insurance on the borrower. A list of banks having a student loan program may be obtained by writing the Installment Credit Committee, American Bankers Association, 12 East 36th Street, New York, N.Y., 10016.

Your Credit Union also makes educational loans, ordinarily a year at a time. These are usually made with the wife as cosigner or if the student is 21 years old or over he may cosign. Interest is only one-half of one percent per month on the unpaid balance, which on a \$1,200 loan would mean a monthly payment of \$103.32 over a year's time. (The chances are good that the Credit Union will also furnish free insurance before the end of the year.)

Completing Your Plan

When your youngster is finally ready for college and considering several, it might be well to draw up a sheet comparing costs and balancing expenses and income. After obtaining costs from the latest college catalogs, draw up a work sheet like the one below, but be sure to estimate all items as carefully and realistically as possible, particularly the incidentals and entertainment.

WORK SHEET
FOR COLLEGE COSTS

| <u>Annual Expenses</u> | <u>College A</u> | <u>College B</u> | <u>College C</u> |
|------------------------|------------------|------------------|------------------|
| Tuition | _____ | _____ | _____ |
| Fees and Dues | _____ | _____ | _____ |
| Room | _____ | _____ | _____ |
| Board | _____ | _____ | _____ |
| Books and Supplies | _____ | _____ | _____ |
| Clothing | _____ | _____ | _____ |
| Entertainment | _____ | _____ | _____ |
| Travel | _____ | _____ | _____ |
| Incidentals | _____ | _____ | _____ |
| Totals | \$ _____ | \$ _____ | \$ _____ |

Sources of Annual College Income

| | | | |
|-------------------------------------|----------|----------|----------|
| Student Savings | _____ | _____ | _____ |
| Student Earnings Before College | _____ | _____ | _____ |
| Allowance from Parents | _____ | _____ | _____ |
| Parents' Savings | _____ | _____ | _____ |
| Part-time work in College | _____ | _____ | _____ |
| Other | _____ | _____ | _____ |
| Scholarship | _____ | _____ | _____ |
| Totals | \$ _____ | \$ _____ | \$ _____ |
| Loan Necessary to Balance Budget | \$ _____ | \$ _____ | \$ _____ |